

Conference Call Q&A (November 19, 2019) – 1H FY2019 Results

Shareholder Return

Q: When discussing your shareholder return policy, you said that you plan to provide total shareholder returns over and above the actual amount of total shareholder returns in the previous fiscal year. What is your approach to shareholder returns?

A: The main point is that even though the adjusted profit forecast has been reduced from the beginning of the fiscal year, we plan to ensure that total shareholder returns do not fall below the actual amount of total shareholder returns in the previous fiscal year. Of course, we said that we plan to provide total shareholder returns over and above the previous year's level "at the very least." Accordingly, we seek to provide a higher amount of total shareholder returns than in the previous fiscal year.

Domestic P&C Insurance Business

Q: What is the underwriting reserve related to natural disasters?

A: The underwriting reserve related to natural disasters is set forth in the Insurance Business Act. If the sum of the average loss ratio, expense ratio and certain other metrics, adjusted for extraordinary natural disasters that reoccur within at least a certain time period, surpasses a certain threshold, additional provisions must be made. We have made additional provisions to the underwriting reserve related to natural disasters for the first time in our full year forecast (revised forecast).

Q: What impact will the additional provisions to the underwriting reserve related to natural disasters have on full-year earnings? What was the background for deducting these additional provisions from adjusted consolidated profit?

A: The impact on earnings will be around ¥17.0 billion on an after-tax basis (and around ¥24.0 billion on a pre-tax basis). The background for deducting these additional provisions from adjusted consolidated profit was that we decided to treat the impact in the same way as the impacts of provisions to the contingency reserve and the catastrophic loss reserve, which are deducted from adjusted consolidated profit. This decision was based on the fact that the underwriting reserve related to natural disasters are additional provisions stipulated by the Insurance Business Act.

Q: What are the main factors behind the year-on-year changes in earnings for 1H FY2019 with

respect to the underwriting profit of Sompo Japan Nipponkoa, excluding the impacts of factors such as the catastrophic loss reserve, domestic natural disasters and foreign currency? What are the main positive factors behind full-year earnings forecast (revised forecast) relative to the initial forecast?

A: The main factors behind changes in underwriting profit for 1H FY2019, excluding the impact of factors such as catastrophic loss reserve, domestic natural disasters, and foreign currency, were as follows. The main factors were higher commissions and an increase in provision for policy reserve (around -¥6.0 billion) in connection with increased revenue from long-term fire and allied insurance (around +¥20.0 billion); an increase in reinsurance cost (-in the higher several billion yen range); the impact of the consumption tax hike (-¥4.0 billion); an increase in large losses (around -¥7.0 billion); and the impact of revised automobile insurance premiums due to a revision in January 2018 (around -¥2.0 billion). On a full-year basis, improvement in loss ratios for other lines, marine insurance and other products is expected to contribute positively to earnings.

Q: What is your forecast for the full-year gross incurred loss on domestic natural disasters? Also, do you have any plans to make extraordinary provisions to the catastrophic loss reserve?

A: Our full-year forecast (revised forecast) for the gross incurred loss on domestic natural disasters is around ¥322.0 billion. We plan to consider making extraordinary provisions to the catastrophic loss reserve based on factors such as the actual progress on claims paid going forward and our reinsurance strategy for next fiscal year. At this time, no decisions have been made on extraordinary provisions to the catastrophic loss reserve.

Q: You said that the full-year forecast for the gross incurred loss on Typhoon No. 19 is around ¥140.0 billion. This amount seems small compared with the gross incurred loss on Typhoon No. 21 in the previous fiscal year and other natural disasters. What are the main factors behind your forecast?

A: The amount of the gross incurred loss will vary with each natural disaster. When comparing Typhoon No. 19 in the current fiscal year and Typhoon No. 21 in the previous fiscal year, the main type of damage from Typhoon No. 19 was water damage from flooding in limited areas, whereas the main type of damage from Typhoon No. 21 was widespread wind damage. We can infer that this factor was primarily responsible for preventing the losses from Typhoon No. 19 from growing as large as the losses from Typhoon No. 21.

Q: You have set the domestic natural disaster assumption at ¥96.0 billion in your full-year forecast

(revised forecast). Could this assumption possibly change?

A: The forecast allows for a certain buffer and several reinsurance arrangements will be put in effect. Considering these factors, we believe the budget is unlikely to be increased.

Overseas Insurance Business

Q: What are the main factors behind changes in SI's full-year business forecasts (revised forecasts)?

A: The main factors behind changes in SI's loss ratio in the revised forecasts are the impact of large losses, including crop insurance (around -¥10.0 billion). On the other hand, the expense ratio is expected to decrease owing to successful efforts to reduce costs centered on company expenses.

Q: What was the background for the change in the CEO of Sompo International Holdings (SIH)?

What is the division of roles and responsibilities between the SIH CEO and the Overseas Insurance Business Owner?

A: Based on the platform vision and other factors, SIH's position within the Group has become increasingly important. There is a heightened need for close cooperation between SIH and the overall strategy of the holding company. Against this backdrop, the SIH CEO will fulfill this role while concurrently holding the post of Group CSO. The aims of this change are to further integrate Sompo Holdings' overall strategy and overseas business strategy, along with accelerating evolution, business collaboration, and functional integration. With the support of the Overseas Insurance Business Owner, the SIH CEO will drive the organic growth of the overseas insurance business, including Sompo International (SI).

Q: In SI's revised forecast, gain (loss) on securities has been deducted from adjusted profit. Could you please explain the details?

A: Because SI has adopted IFRS, changes in the fair value of securities are reflected in net income. This impact is deducted primarily from adjusted profit. This impact is also eliminated in Sompo Holdings' consolidated accounts, which are based on Japanese accounting standards.

Q: What is your full-year forecast for SI's overseas natural disaster assumption?

A: In FY2019, SI's assumption for major natural disasters was initially forecast at around ¥23.0 billion. Considering, however, that additional provisions for loss reserves in prior years and other factors were recorded in the amount of around several billion yen, we expect the assumption to increase to around ¥25.0 billion on a full-year basis.